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TAGS: ECON EINV EFIN ETRD BEXP KTDB PGOV SF
SUBJECT: SOUTH AFRICA ECONOMIC NEWSLETTER
June 10, 2005 ISSUE


¶1. SUMMARY. Each week, AmEmbassy Pretoria publishes an economic newsletter based on South African press reports. Comments and analysis do not necessarily reflect the opinion of the U.S. Government. Topics in the February 25 newsletter include:

- Interest rate remains unchanged
- April manufacturing up 7.1 percent
- Inflation expectations unchanged
- SACU to sign trade deal with EFTA
- SA eyes uranium mining
- Telkom announces huge profits
- South Africa forex reserves soar 7 percent

END SUMMARY.


## INTEREST RATE REMAINS UNCHANGED

¶2. On June 9, Reserve Bank Governor Tito Mboweni announced that the repurchase rate would remain at 7 percent. The decision to keep rates unchanged was the unanimous expectation of economists surveyed by I-Net Bridge and mirrors similar non-action by the central banks of Australia, New Zealand and the United Kingdom this week. The no-change forecast was despite the fact that CPIX inflation (CPI excluding mortgage costs) has been below the midpoint of the Reserve Bank's inflation target range of 3 - 6 percent year-on-year for 16 out of the past 19 months. The recent volatility in the rand has concerned economists as the rand went from below R6 per dollar to almost R7 per dollar. Optimists say that all this has done is provide a buying opportunity for foreigners, who expect the rand to strengthen back towards the R6 per dollar level as the proceeds from the Barclays purchase of Absa enters South Africa. (Mail & Guardian, June 9)

## APRIL MANUFACTURING UP 7.1 PERCENT

¶3. South African manufacturing production rose by 7.1 percent year-on-year (y/y) in April 2005 after increasing by only 0.7 percent y/y in March 2005, Statistics South Africa (Stats SA) reported. Manufacturing sales rose by 11.4 percent y/y in April to 68.1 billion rand after increasing by only 1.9 percent y/y in March. Stats SA said the y/y comparisons are distorted by Easter falling in March this year, whereas in 2004 it fell in April. Higher production was reported by four of the ten manufacturing divisions. Manufacturers reported increased production and sales in April 2005 due to a longer working month after the public holidays in March 2005. The major contributor to the seasonally adjusted increase of 1.0 percent in total manufacturing production for the three months ended April 2005 compared with the previous three months was the food and beverages division, followed by the petroleum, chemical products, rubber and plastic products, wood and wood products, paper, publishing and printing and the glass and non-metallic mineral products division. However, these increases were counteracted by decreases reported by the furniture and 'other' manufacturing division, the textiles, clothing, leather and footwear division, the radio, television and communication apparatus and professional equipment division, and the motor vehicles, parts and accessories and other transport equipment division. The South African economy has officially been in an "upward" phase since September 1999, exceeding the previous record upward phase, which lasted from September 1961 to April
¶1965. (I-Net Bridge, June 10)

## INFLATION EXPECTATIONS UNCHANGED

¶4. South African inflation expectations of 4.5 percent for CPIX (CPI less mortgage costs) for the second quarter of 2005 remain unchanged from those in the first quarter of the

year, according to the latest survey by the Bureau for Economic Research (BER) at the University of Stellenbosch. The BER said the results were "encouraging," as they confirmed the lower expectations recorded during the first quarter of the year, while also showing that the higher petrol price had not pushed general inflation expectations higher. The price of unleaded petrol at the coast had increased by more than 1 rand per liter - to 5.11 rand in May from 4.09 rand in February - since the previous survey. Changes in the petrol price could have a large impact on inflation expectations, the BER noted, as transport costs made up a relatively large share of the expenses of households and companies. However, the BER added, inflation expectations were unlikely to fall further during the upcoming quarters, as actual inflation had bottomed and fuel prices had risen. Also noteworthy was the trade union movement's slightly higher expectations for salary and wage increases - the second quarter survey showed trade union officials' expectations for these rising to 7.2 percent for 2005 and 7.3 percent for 2006, from 6.8 percent and 6.9 percent, respectively, in the first quarter. (I-Net Bridge, June 10)

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SACU TO SIGN TRADE DEAL WITH EFTA
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¶5. The Southern African Customs Union (SACU) is expected to sign a free trade agreement with the European Free Trade Association (EFTA) by the end of the month, according to Trade and Industry Chief Director of Trade Negotiations Xavier Carim. An agreement would open up duty-free and quota-free access for SACU industrial products to EFTA member countries - Norway, Switzerland, Lichtenstein and Iceland. EFTA countries normally trail the EU to negotiate equal agreements with trade partners, but this agreement has better rules-of-origin requirements than the trade agreement that South Africa has with the EU. Implementation is only likely to take place from early next year, as each of the member countries of both blocs must ratify the agreement, Carim said in a briefing to Parliament's trade and industry portfolio committee. The negotiations with EFTA began in May 2002 and have concentrated on traditional trade issues. The parties agreed to exclude "new-generation" issues such as trade in services, intellectual property rights, investment, competition and government procurement. EFTA has offered SACU limited access to its basic agricultural products market, but is willing to grant more. (Business Day, June 6)

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SA EYES URANIUM MINING
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¶6. In her recent budget speech to Parliament, Minerals and Energy Minister Phumzile Mlambo-Ngcuka said South Africa was committed to nuclear power, and would use its uranium resources to ensure security of energy supply. Currently, most uranium in SA is mined as a by-product of gold mining. Gold and uranium miner Aflease's CE Neal Forneman says Aflease wants to start mining uranium and that government needs to make it easier for companies to gain access to mineral rights. However, Earthlife Africa researcher Mashile Phalane cautions that government must ensure that communities living in the vicinity of uranium grains will not be affected by expanded uranium mining. The price of the mineral in oxide form has risen from $10/lb in early 2003 to the current price of $29/lb. (Business Day, June 7)

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TELKOM ANNOUNCES HUGE PROFITS
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¶7. Shares in telecommunications group Telkom rose to an all-time high of 119 rand per share on Monday after the firm reported a 53 percent rise in basic earnings per share to 1241.8 cents from last year's 812 cents. The results came in slightly above market consensus. The market had forecast an improvement of between 40 percent and 50 percent. The Johannesburg and New York-listed firm also said it would pay out an ordinary dividend of four rand per share and a special dividend of five rand per share. Since listing on March 4, 2003, Telkom's share price has roared ahead more than 320 percent. Telkom CEO Sizwe Nxasana said, during the results presentation, that the firm was looking at investing in the Democratic Republic of Congo where its 50 percent-held subsidiary Vodacom Group already had mobile operations. In addition, he said Kenya and Nigeria are some of the markets Telkom has identified for future expansion. (I-Net Bridge, June 6)

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SOUTH AFRICAN FOREX RESERVES SOAR 7 PERCENT
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¶8. South Africa's foreign exchange reserves rocketed 7 percent last month as the Reserve Bank began managing the financial inflows from the proposed $4.9 billion Barclays-Absa deal. Gross foreign exchange and gold reserves surged by $1.15 billion to $17.2 billion. Efficient Group economist Nico Kelder said reserves "breached the R100 billion level for the first time" last month, increasing the import-cover ratio to 16.8 weeks from 13.9 weeks in April.

"This ratio is expected to increase further in coming months, especially after the Barclays transaction boosts reserves by approximately R33 billion ($5 billion)," he said. The Bank said yesterday that the reserves increase reflected "a combination of foreign exchange operations conducted by the Bank for own account, as well as on behalf of customers, including foreign exchange purchases arising from a foreign direct investment transaction." It did not identify the transaction, but economists said it was most likely to be the deal approved by Finance Minister Trevor Manuel last month, in which Barclays seeks to buy up to 60 percent of ABSA. National treasury officials have said the Bank will manage the inflows from the deal to avoid an unwelcome strengthening of the rand that a sudden increase in demand for the currency would cause. The sharp increase in reserves also comes against the backdrop of calls for the Bank to be more active in the foreign exchange market to weaken the rand, something it has repeatedly said it is not prepared to do. Despite the strong rand being blamed for job losses and sluggish growth in the manufacturing sector, President Thabo Mbeki said, "We certainly are not thinking in any way of finding huge resources to keep the value of the currency at a particular rate. We don't have them; there is no way we can find billions of dollars to compete with the market to set the value of the currency after a particular point." (Business Day, June 8)
FRAZER